

Statement in Support of HB 6352
An Act Concerning the Expenditure Cap

Bill Cibes
Hartford, CT

Appropriations Committee
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Since the voters approved a constitutional spending cap in the 1992 election, the General Assembly has never enacted, by the mandated 3/5 vote, definitions of three crucial terms – “increase in personal income,” “increase in inflation,” and “general budget expenditures” – required by the constitutional amendment. Instead, the state has continued to operate under the terms of a *statutory* spending cap adopted in 1991. Governor Malloy is now “proposing to implement the constitutional spending cap by making an adjustment to the Connecticut spending cap statute,” as explained by Secretary Barnes.

The two recommended adjustments make eminent sense. First, the *constitution* exempts “expenditures for the payment of bonds, notes or other evidences of indebtedness” from the spending cap. Because credit agencies and the Governmental Accounting Standards Board treat the unfunded past service liabilities of the Teachers Retirement System and the State Employees Retirement System as obligations which the state must pay, the *statute* should specifically clarify that these expenses are exempt from the cap.

Second, after the U.S. Supreme Court ruled that the Medicaid expansion enacted in the Affordable Care Act was not a mandate, but an option which states could choose to exercise, the 100% federal funding of this Medicaid expansion to which all states are entitled would be impossible for Connecticut to accept under the existing *statutory* definition of “general budget expenditures,” which exempts from the cap only spending to implement “federal *mandates*.” As even hard-core Republican governors in other states have recognized, it makes no sense to reject a program that extends health care to a newly eligible group of low and middle income families at absolutely no cost to the state. So this definition should also be changed.

I would observe that the old language in lines 41-44, defining “federal mandates,” but then proceeding to say that optional programs ARE general budget expenditures, may conflict with the intention, stated in lines 32-34, to say that the optional program which will pay for 100% of new Medicaid spending shall not be considered general budget expenditures. This potential conflict requires careful review and probably language restatement.

At the same time as it implements the adjustments proposed by Governor Malloy, the General Assembly should also adopt three other adjustments to existing *statutory* language: 1) The base for calculating the permitted increase in expenditures should be established as either the amount actually spent during the preceding year or the amount that would have been *allowed* under the cap during the preceding year. Using allowable spending as the base prevents the budget from ratcheting down with each recession, because of a slow rate of growth applied to a depressed budget base. 2) "Increase in personal income" should be defined to include net realized capital gains, which are currently statutorily excluded. Not counting net realized capital gains substantially understates the overall income of Connecticut residents, and hence the real fiscal capacity of the state. 3) To produce greater stability in the amount of permitted spending, the period of time used in calculating the average of the increase in personal income should be extended from five to ten years. Otherwise, the volatility of the spending cap over a short period of time may result in undesirable "boom and bust" fluctuating cycles in spending.

Thanks for considering my views.